

Testimony of
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for
The Michigan Electric Cooperative Association
Before the Senate Energy & Technology Committee
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Lansing, Michigan

Good afternoon, my name is Tom Harrell. I am the General Manager of the Alger Delta Cooperative Electric Association in Gladstone, Michigan. I am testifying today on behalf of the 11 electric cooperatives represented by the Michigan Electric Cooperative Association. My thanks to Chairman Nofs for the invitation to testify on the Energy Optimization provisions of PA 295 of 2008 before the Committee this afternoon.

Collectively, the electric cooperatives in Michigan serve more than 300,000 homes, farms, and businesses in 59 of Michigan's 83 counties.¹ My co-op serves nearly 10,000 of those member-consumers in six counties in the central Upper Peninsula—that's about 1,700 consumers per county.

Electric cooperatives are not-for-profit, member-owned utilities. Each cooperative is governed by a board of directors that is democratically elected by its membership. We support educating our member-consumers to become wiser users of electricity and have been implementing "energy efficiency" initiatives for decades. Historically, our programs have been successful without the formalized reporting and evaluation provisions that are now a necessary, and expensive, part of the current program under PA 295.

My comments this afternoon will provide some background on how Michigan's electric cooperatives are: (1) complying with the energy optimization statute; (2) how we intend to work towards the goals of the statute over the next several years; and (3) lastly, I will offer a

¹ MECA's membership consists of the following: Alger Delta Cooperative Electric Association, Cherryland Electric Cooperative, Cloverland Electric Cooperative, Great Lakes Energy Cooperative, HomeWorks Tri-County Electric Cooperative, Midwest Energy Cooperative, The Ontonagon County Rural Electrification Association, Presque Isle Electric & Gas Co-op, Thumb Electric Cooperative, Wolverine Power Marketing Cooperative, and Wolverine Power Supply Cooperative, Inc.

Michigan's electric cooperatives maintain over 36,000 miles of line to serve approximately 310,000 meters. This results in an average of approximately eight customers per mile of line. This compares to approximately 35 customers per mile for the average investor-owned utility and over 90 customers per mile for some municipal systems. As for annual kWh sales per mile of line, the cooperatives average 60,500; the IOUs 725,000; and municipals top the scale at 1,950,000 kWh per mile per year. Approximately 95% of cooperative customers are residential. Several cooperatives serve a considerable number of seasonal homes and cottages where annual usage is low, but maintenance and the annual cost to serve may be higher.

suggestion for how Michigan's electric cooperatives believe energy optimization programs can be tailored to better meet the needs of smaller utilities, such as electric cooperatives.

First, I need to point out that 8 of the 9 distribution cooperatives in Michigan have formed an Energy Optimization "Collaborative." In addition, four municipal utilities have joined the Collaborative. Our purpose is to work together to share the costs of various third-party vendors and contractors that are necessary to implement a program of this magnitude across our vast geographic footprints.

Our 12-member EO collaborative has achieved 82% of its three-year target of nearly 52 million in kilowatt hour reductions. That's equal to about 5,600 of my co-op's members going without electricity for an entire year. We expect that all Collaborative members will meet or exceed their three-year program goals for the 2009-2011 time periods. However, we have now taken advantage of much of the "low hanging fruit" and our collective jobs will become much tougher as we proceed forward with our 2012-2015 plan.

By year-end, the Collaborative will have invested more than \$9 million dollars in implementation, evaluation, and administrative costs to achieve the three-year energy reductions required under the statute. By working together, we have also achieved efficiencies valued at nearly \$2 million dollars for our Collaborative members through coordinating and centralizing program planning, implementation, administrative, evaluation and promotional expenses.

That being said, our job as electric cooperatives will become more difficult, more time consuming, and more expensive as we move forward with our four-year plan for 2012-2015. For example, the next four year period calls for Collaborative members to invest more than \$30 million dollars to achieve the ever increasing energy optimization goals outlined in the statute. We believe this will be difficult but I commit to you that Michigan's electric cooperatives will work diligently towards that end.

I believe it is important to point out that for our smaller, consumer-owned utilities, the more than \$30 million dollars that our Collaborative will be required to invest over the 2012-2015 time frame will be paid for by our consumers through a monthly surcharge. In essence, our consumers are directly paying for the programs that we develop to help them become wiser users of electricity.

Therefore, our goal is to continually develop programs that provide value, get the job done, and are cost effective. Unlike our large investor-owned colleagues, our member-

consumers are our shareholders; thus, we have a strong incentive to hold the line on costs for the member-consumers that own us – while pursuing our statutory targets. Also unlike our investor-owned colleagues, we have no “shareholder bonus” for meeting our program targets.

I can assure the Committee that, due to the “one-size-fits-all” nature of the EO program, meeting the statutory targets will become more difficult and more costly for our members. I may be able to illustrate this point by telling you more about my cooperative.

Earlier I mentioned that Alger Delta has about 10,000 members. Of these, about half are seasonal members. In the central UP, “seasonal” is another way of saying “deer hunting camp.” On our system, deer hunting camps are rustic – and in some cases, using the word rustic is being very kind. We also have about 300 seasonal small commercial members. These members are campgrounds, canoe or boat rental places, refreshment stands, and other small seasonal businesses. About one thousand of our members consume 500 kilowatt hours or less – over the course of a whole year. By comparison, nearly all of us in this room consume more than 500 kilowatt hours each month. The other half of our members – the permanent residents – our research shows that about 2,000 of them are snowbirds; spending three to six months living in warmer climates. So, in reality, only about 1/3 of our 10,000 members actually live on our system year-round.

I could provide you with more anecdotes about the difficulty of implementing Energy Optimization measures at canoe rental businesses and deer hunting camps that are only used between November 15 and 30. Instead, it seems more valuable to underscore that Cooperatives simply want to ensure that we can continue to work together to meet the program goals in an efficient and cost-effective manner.

I would like to conclude with a suggestion for how the energy optimization statute could be more accommodating for smaller utilities, such as Michigan’s electric cooperatives. We suggest that the Michigan Public Service Commission (MPSC) be granted additional authority to work with smaller utilities such as electric cooperatives to ensure our unique needs and energy optimization targets of our members can be attained but in a cost-effective manner. After all, the MPSC is the state’s “expert” on energy matters and is clearly in the best position to work with electric cooperatives to help us continue to meet our targets under the energy optimization statute.

On behalf of Michigan's electric cooperatives, I want to thank Chairman Nofs and members of the Senate Energy & Technology Committee for your time today. I am happy to answer any questions. Thank you.